REPORT BY THE AUDITOR GENERAL OF CALIFORNIA

Federal and State Equity in EDD Owned Buildings

F-051 **MARCH 1991**

Kurt R. Sjoberg, Auditor General (acting)

State of California
Office of the Auditor General
660 J Street, Suite 300, Sacramento, CA 95814
Telephone : (916) 445-0255

April 4, 1991 F-051

Honorable Robert J. Campbell, Chairman
Members, Joint Legislative Audit Committee
State Capitol, Room 2163
Sacramento, California 95814

Dear Mr. Chairman and Members:

Summary

The Employment Development Department (EDD) administers programs of the United States Department of Labor (DOL). To administer these programs, the EDD purchased or constructed many facilities throughout the State, using federal grant funds to repay the initial financing on many of these properties. As a result, the DOL has acquired an equity interest in these properties in the same proportion as it participated in the repayment of the initial financing. The Office of the Attorney General, the EDD's legal office, and the Office of the Legislative Counsel agree that the DOL has a legal basis for an equity interest in state-owned properties. Our review of the EDD's records showed that, for most of the properties in which the DOL has an equity interest, the DOL and the EDD initially agreed that federal grant funds would be used to repay the initial financing of the property and that the payments would result in a federal equity interest in the property. Also, there is evidence that the Department of Finance was aware that the federal government would acquire an equity interest in the property if the State used federal funds to repay the initial financing.

Based on the EDD's records, the historical cost of the properties in which the DOL has an equity interest is at least $51 million. The DOL's share in these properties as of January 31, 1991, is at least $24 million based on the historical cost of the properties. The fair market value of the DOL's equity interest in these properties would be significantly higher.

Background

The DOL and the EDD have established a long-term relationship governed primarily by the federal Social Security Act and the California Unemployment Insurance Code, under which the EDD has operated federal programs for over 50 years. To administer these programs, the EDD constructed or purchased many facilities throughout the State using three different sources for the initial financing of the projects. Two of these sources, the Unemployment Compensation Disability Fund and the EDD Contingent Fund, are state funds, and interest was charged on most of the amounts that the EDD used.

The third source of initial financing was excess funds provided by the DOL, which had been collected under the Federal Unemployment Tax Act. Often referred to as "Reed Act" funds, these funds are available to states for paying unemployment insurance benefits or administrating the federal Unemployment Insurance and Employment Service programs. These funds are deposited in a state's account in the Unemployment Trust Fund in the United States Treasury. The EDD is not required to repay the Reed Act funds, but if the EDD does reimburse the Unemployment Trust Fund for the Reed Act funds used, the money is again available to pay unemployment insurance benefits or additional administrative costs, including the acquisition or construction of other facilities.

When the EDD disposes of a property that was initially financed with Reed Act funds that it had not completely repaid, it must reimburse the remaining unpaid balance to the Unemployment Trust Fund. These funds will again be available to the EDD for the payment of unemployment benefits or

administrative costs. In addition, the EDD must return to the Unemployment Trust Fund a share of the profits from the property disposition proportional to the unreimbursed Reed Act funds; the EDD can use these funds only for paying unemployment insurance benefits.

During the 1950s, the EDD began using federal funds to repay all or a part of the initial financing for the facilities it had been acquiring or constructing. The DOL and the EDD claim that the use of federal funds to repay this initial financing results in an equity interest in the facilities for the DOL. The extent of the DOL's equity interest would be proportional to the federal participation in repaying the initial financing. The DOL and the EDD also claim that if the EDD wants to sell a facility, it must obtain the DOL's approval and either invest the proceeds in another facility for the same program or return to the DOL its portion of the net proceeds.

The DOL audited the EDD to evaluate its policies and procedures for accounting for the federal equity in state-owned properties, to determine the value of the DOL's equity in state-owned properties, and to analyze whether the EDD had properly compensated the DOL for its equity interest in properties previously disposed of by the EDD. The results of this audit, issued in March 1989, showed that the EDD maintained adequate records and properly accounted for the federal equity in state-owned property; that as of September 30, 1988, the DOL had equity in 39 state-owned properties for a total value of approximately $25 million based on historical cost; and that the DOL did not identify any property dispositions in which the DOL had an equity interest.

However, in November 1989, the DOL issued another report indicating that the EDD did not compensate the DOL for its equity share in a building that had been razed and two parcels of land that the State currently uses for something other than their originally authorized purpose. In this report, the DOL recommended that the EDD pay the DOL for the equity it had in those properties. The EDD, with the approval of the Department

of Finance and the Department of General Services, proposed that the DOL's equity in these three properties be transferred to another EDD facility that was purchased to replace the razed building. The DOL agreed to this proposal, and in January 1991, the EDD and the DOL formally settled this matter by agreeing to apply the DOL's equity interest of $1,057,510 to the replacement property.

The State has declared as surplus one of the 39 properties in which the DOL claims an equity interest. Chapter 1036, Statutes of 1989, authorizes the Department of General Services to sell, exchange, or lease the EDD's branch office in Los Angeles. In addition, Chapter 1036 established the Employment Development Building Fund and requires that the net proceeds from the sale of the Los Angeles facility, or any other property in which the DOL participated in the repayment of the initial financing, be deposited in the fund and be appropriated by the Legislature only to acquire, construct, or renovate the EDD's facilities. Therefore, Chapter 1036 allows the EDD to complete real estate transactions without having to return the money immediately to the DOL. As long as the EDD complies with all regulations relating to federal equity and obtains the DOL's approval, it can use the proceeds, including the federal share, from the sale of properties to purchase or construct replacement facilities.

The EDD's 1990-91 capital outlay budget proposes that the EDD will purchase four properties to replace the Los Angeles branch office. Before approving this proposal, the Legislature requested that we determine the legal basis and the extent of federal and state equity in state-owned properties the EDD occupies.

Scope and Methodology

The purpose of our review was to determine whether the DOL and the EDD have a legal basis for their claim of federal equity in properties occupied by the EDD; to determine whether the DOL, the EDD, and the Department of Finance initially agreed on the issue of federal equity; and to determine how much equity the DOL may have in state-owned properties the EDD occupies.

To determine whether there is a legal basis for federal equity in properties the EDD occupies, we reviewed both federal and state laws and regulations governing the use of federal funds to amortize the cost of state-owned properties, which resulted in federal equity. Amortization is the process of reducing an amount, such as the cost of a property or a loan balance, through periodic installment payments. In addition to the laws and regulations, we reviewed legal opinions of the Office of the Attorney General and the EDD's legal office on the issue of federal equity in state-owned properties. Further, we obtained an opinion from the Office of the Legislative Counsel on the legal basis of federal equity in state-owned properties the EDD occupies.

To determine whether the DOL, the EDD, and the Department of Finance agreed about a federal equity interest in state-owned properties, we interviewed personnel at the EDD, the Office of the Legislative Analyst, the Department of Finance, and the Department of General Services. Some personnel at each of these agencies were aware of the DOL's claim of federal equity interest in state-owned properties the EDD occupies, and some of them provided us with documentation on the issue. In addition, we reviewed the EDD's "Report to the Legislature on Federal Equity Claims in State-Owned Buildings." This report included copies of the two audit reports the DOL issued in March and November 1989 about federal equity in state-owned properties. Further, we reviewed the EDD's extensive files of correspondence and other documentation on each of the properties it occupies. The files contained historical correspondence between the DOL and the EDD and between the EDD and the Department of Finance concerning the use of federal funds to amortize the cost of the various properties the EDD occupies by repaying the initial financing and the resulting federal equity.

To determine the equity the DOL may have in state-owned properties the EDD occupies, we obtained the EDD's equity ledger. This ledger indicates how much federal and state money was used to repay the initial financing for each of the properties occupied by the EDD. We verified to the extent possible the accuracy of the entries and the calculations on the ledgers. Although the EDD has records for the properties that identify the initial cost of its land, buildings, and additions, it does not maintain records that summarize the cost of all later alterations and improvements. Also, we were not able to determine if and to what extent the alterations and improvements added value to the properties or were, in effect, maintenance. Since the EDD did not add the cost of alterations and improvements to the initial cost of the properties, we will assume that the alterations and improvements did not add value to the properties. Therefore, the historical cost we present in the attachment does not include the cost of alterations and improvements made to the properties. Further, we did not attempt to verify the accuracy of the EDD's calculation of the historical cost of each of the properties. Finally, we recalculated the state and federal equity share in each of the properties occupied by the EDD.

Legal Basis

The federal rules and regulations state specifically that if a state agency uses money granted by a federal agency to pay for the cost of a property, the federal agency would acquire an equity interest in that property proportional to its participation in the amortization of the property's cost. The rules and regulations governing the issue of federal equity in state-owned properties have been analyzed by the Office of the Attorney General, the EDD's legal office, and the Office of the Legislative Counsel. All three of these entities concluded that there is a legal basis for a federal equity interest in state-owned properties.

Through its Employment Security Manual, the DOL provided the standards for administering its programs and using federal funds. The Employment Security Manual, Sections 2520 through 2526, outlines the conditions under which the DOL's payments

should be applied against the purchase or construction costs of buildings. These sections state that when the purchase price of the space occupied by the state agency has been fully amortized by DOL grants, funds will be made available thereafter only for operation and maintenance costs. These sections further state that under no circumstances is a state to realize a profit from funds granted to it for the administration of the Unemployment Insurance and Employment Service programs. These sections existed from at least 1950, and they have not been updated since 1974.

Some of the current regulations governing the use of funds that the DOL granted for federal programs, including the Unemployment Insurance and Employment Service programs, are found in the Code of Federal Regulations, Title 29, Part 97. Section 97.22(b) refers to the Office of Management and Budget, Circular A-87, for determining the allowable costs for state government entities using DOL-granted funds.

Circular A-87, Attachment B, Section C, allows for grant money to be used for capital expenditures, including the cost of facilities when approved by the federal grantor agency, but it requires that, when the assets are sold or no longer available or used for federally sponsored programs, the federal grantor agency's equity interest in the asset will be refunded proportional to the federal participation in the cost of the asset. The rules to be followed when properties are sold that were purchased with federal funds are more specifically set forth in the Code of Federal Regulations, Title 29, Section 97.31.

The Code of Federal Regulations, Title 29, Section 97.31, provides the rules for real property acquired with federal funds. This section requires that the grantee maintain title to the property, that the property generally be used for the originally authorized purpose, and that the grantee request disposition instructions from the awarding agency when the property is no longer needed for the originally authorized purpose. The disposition instructions will provide for one of the following alternatives:

- The grantee may retain title after compensating the awarding agency. However, if the grantee is disposing of real property acquired with grant funds and is acquiring replacement property, the net proceeds from the disposition may be used to offset the cost of the replacement property.

- The grantee may sell the property and compensate the awarding agency.

- The grantee may transfer title to the awarding agency or to a third party designated or approved by the awarding agency.

The Office of the Attorney General issued an opinion, dated September 24, 1969, on the issue of a federal equity interest in state-owned property resulting from the use of federal funds to purchase specific properties. The State Lands Commission asked the Office of the Attorney General to decide how to distribute oil and gas royalties resulting from oil and gas leases underneath two properties under the jurisdiction of the EDD. The Office of the Attorney General decided that the DOL should receive its share of those oil and gas royalties because it would own an equity interest in the property if it made payments to the EDD that the EDD used to pay for the initial acquisition cost of the land.

The EDD asked its legal office to provide an opinion explaining the basis for the federal claim of an equity interest in certain properties the EDD occupies. The EDD's legal office concluded that there is a legal basis for a federal equity interest in state-owned buildings. Specifically, the EDD's legal office concluded that state law authorizes the EDD to operate the Unemployment Insurance and Employment Service programs in accordance with federal rules and regulations as determined by the DOL. Federal rules and regulations specify how federal funds can be used, and they describe situations in which the use of federal funds creates an equity interest on the part of the DOL in the real property involved. The EDD's legal office also stated that there seemed to be extensive correspondence concerning the establishment of a federal equity interest when the EDD began acquiring and building facilities in the mid-1950s.

The Office of Legislative Counsel agrees with the opinion of the EDD's legal office. Specifically, the Office of the Legislative Counsel concluded that the federal government would acquire an interest in state-owned property used by the EDD in the administration of the Unemployment Insurance program if the EDD used federal funds for the purchase, acquisition, or construction of the property.

Initial Agreements

There is evidence that, before the EDD acquired or constructed most of the properties it occupies, the Department of Finance was aware that the federal government would acquire an equity interest in the properties if the State used federal funds to repay the initial financing. In addition, for most of the properties in which the DOL claims an equity interest, the DOL and the EDD agreed, before any DOL payments, that the DOL would receive an equity interest in the properties. The agreement was documented in two ways. The most common method was through specific agreements between the EDD and the DOL made before federal funds were used to repay the initial financing of a property. The second method was through the transfer of an existing federal equity interest to replacement properties. The DOL participated in the amortization of the original properties' costs, but the EDD no longer uses the properties for their originally authorized purpose.

Agreements Made Before the Use of Federal Funds

There is some indication that, on March 28, 1949, before the acquisition or construction of most of the EDD's properties, the DOL provided the EDD with a letter allegedly outlining the DOL's policy regarding the type of information required from the EDD when it requests approval of rental payments to amortize the cost of properties. We were not able to obtain this letter, but most of the requests we reviewed referred to it. In addition, these requests referred to a letter from the Department of Finance, dated June 7, 1950, before the acquisition or construction of most

of the properties that the EDD subsequently occupied. This letter appears to have acknowledged or accepted the DOL policy that only maintenance and operation costs would be charged to the DOL after the cost of the property had been fully amortized. Although, we were not able to obtain this letter, we did find a letter from the Department of Finance, dated February 1, 1960, which reaffirmed the policy allegedly stated in the first letter. This letter also indicated that the director of the Department of Finance had reviewed and had no difficulty with the DOL standards that provide for an equity interest in state-owned properties. In addition, we found a letter from the Department of Finance to the EDD dated November 21, 1950, five months after the original letter referred to above. The letter of November 21, 1950, states that the standards and requirements of the DOL concerning rental obligations are acceptable to the DOF. In this letter, the Department of Finance also recognizes a federal equity interest in a specific state office building because of the rental payments the EDD made with federal funds that were more than the amounts required to meet maintenance and operation costs.

Our review of the files that the EDD maintained for each of the properties it purchased or constructed indicates that the EDD and the DOL corresponded extensively about the use of federal funds to amortize the cost of certain properties by repaying the initial financing of the properties. In fact, we noticed a specific pattern to the correspondence between the EDD and the DOL for most of these properties. Chronologically, one of the first documents on each of the properties is the EDD's request for the DOL's approval of an amortization plan. This request describes the initial funding of the property, the location of the property, the total square footage to be occupied by each agency or department, the estimated cost of the property, the proposed rental rate, the DOL's share of the proposed rental payment, the breakdown between the amount that will be applied toward the amortization of the property's cost and the amount estimated as necessary for operation and maintenance costs, and the years over which the costs will be amortized.

The EDD also submitted to the DOL, either along with this narrative request or at another time, a form provided by the DOL titled "Request for Approval of Expenditures for Rental of Office Space." This form provides much of the same information as the narrative request and includes a box for the signature of the state agency official and a box for the DOL's approval. Frequently, the EDD submitted a separate request for each subsequent building project undertaken for a specific property. The EDD claims that, for 51 projects representing 36 different properties, it submitted a request for the DOL's approval of an amortization plan. We were able to obtain copies of the approval request for 44 of the 51 projects.

The next document was either a letter from the DOL indicating its tentative approval for the use of granted funds to amortize the cost of the property, or it was the approved request form that the DOL returned to the EDD. Once the EDD submitted final cost figures to the DOL, the DOL sent the EDD a letter indicating final approval. We were able to obtain copies of either the letter from the DOL approving the amortization plan or the returned request form with the DOL's approval for 43 of the 44 approval requests that we obtained. In addition, we obtained copies of the DOL's approval of the amortization plan for 4 additional properties, although we were not able to obtain the original request.

In 1966, the DOL appears to have requested the EDD to prepare and perhaps submit rental-purchase amortization schedules on a standard form for all of the properties for which the DOL participated in repaying the initial financing. These forms included the location of the property, the initial financing and cost of the property, and the amount of federal funds applied or to be applied toward amortization of the property's cost by fiscal year. The presence of a DOL audit stamp on many of these forms is evidence that the DOL at least reviewed the forms and probably also agreed with the information they contained. We were able to obtain the rental-purchase repayment schedules for 43 of the 51 projects, and 21 of these schedules were marked with the DOL audit stamp.

Since the properties were acquired or constructed as early as the 1950s, some of the documentation on the properties may have been lost or destroyed. Therefore, the EDD was not able to provide us with all of the documentation it claims existed for each of the properties. However, from the extensive correspondence between the DOL and the EDD, we could determine that, before the use of any federal funds, the DOL and the EDD clearly intended that the DOL participate in the repayment of the initial financing for at least 46 projects and probably for an additional two projects, representing 33 different properties that the EDD originally acquired or constructed; these payments result in a federal equity interest in those properties. Also, for three of the properties in which the EDD is leasing space from the Department of General Services, there is evidence that the parties agreed, before the DOL obtained its equity interest, that the DOL would participate in the repayment of the financing that the State obtained to construct the properties. Therefore, for a total of 51 projects for 36 different properties, the DOL and the EDD agreed that the DOL would participate in amortizing the initial financing of the properties, creating an equity interest in the properties for the DOL.

Equity Transferred to Replacement Properties

For two of the properties the EDD occupies, the EDD transferred to replacement properties the DOL's equity interest from properties the original cost of which the DOL had, in part, amortized. The EDD no longer used these properties for their originally authorized purposes. The first transfer occurred when the Department of Finance recognized that the DOL had an equity interest in a Sacramento office building occupied by the EDD from at least 1936 through 1953 and that the DOL's equity interest was almost the same amount as the cost of the land acquired for the EDD's current central office building in Sacramento. The Department of Finance proposed that the equity in the old building be transferred to the land used for the new building. The DOL agreed to this arrangement. The DOL now has a 100 percent equity interest in the land on which the current central office building is located.

The second transfer of equity occurred recently and was in response to a DOL audit. In January 1991, the EDD and the DOL executed a settlement agreement in which the EDD agreed to apply the DOL's equity interest in two parcels of land and the building of the old Sacramento field office to the land and building of the new Sacramento field office located at 2901-50th Street. The old field office building was razed, and the EDD currently occupies the buildings that were constructed on the two parcels. Until this recent transfer, the EDD had not compensated the DOL for the equity it had accumulated in the properties, and the EDD had not transferred the equity interest to any other properties. Also, before this transfer, the DOL did not have an interest in the new Sacramento field office. The amount of the DOL's equity interest in the old properties was calculated based on the fair market value of the properties at the time the Sacramento field office was moved.

Federal Equity Interest Is $24 Million

The EDD occupies 39 state-owned properties in which the DOL has an equity interest. The EDD's records indicate that the total historical cost of the properties that the EDD occupies and in which the DOL has an equity interest is at least $51 million. As of January 31, 1991, the total federal equity interest in these properties is at least $24 million based on the historical cost of the properties. The attachment shows the historical cost and the federal and state equity for each of the 39 properties based on the EDD's records.

We could not determine how much equity the DOL has accumulated in four properties that the EDD rents from the Department of General Services. We obtained evidence that, until at least 1968, the rental rate the Department of General Services charged the EDD included a specific amount for the repayment of financing the State obtained to construct the properties. We could not determine how much, if any, of the rental rate was used for the repayment of the financing after that time. The EDD and the Department of General Services did not maintain records showing how much of the monthly rental

payment the DOL paid or how much of that payment applied to the repayment of the financing after 1968. However, we believe that the federal equity interest, as of January 31, 1991, is not more than 13 percent of the combined historical cost of the four properties. This is significantly less than the federal equity interest in the other properties shown in the attachment.

The DOL will not receive compensation for its equity interest in the property that the EDD occupies until the property is disposed of or is no longer used for its originally authorized purpose. Under either of these circumstances, the DOL would receive its proportional share of the proceeds from a sale, or it would receive the fair market value of the property at the time the property was no longer used for its originally authorized purpose. The DOL's share of the fair market value may be transferred to a replacement property. We did not attempt to determine the fair market value of the state-owned properties that the EDD occupies and in which the DOL has an equity interest. However, because real estate in California has appreciated in value since most of these properties were acquired or constructed, we can conclude that the current value of the DOL's equity interest in the state-owned properties that the EDD occupies is significantly higher than the amount based on historical costs.

Conclusion

The Employment Development Department administers programs of the United States Department of Labor. To administer these programs, the EDD purchased or constructed many facilities throughout the State and used federal grant funds to repay the initial financing on many of these properties. As a result, the DOL has acquired an equity interest in these properties proportional to its participation in repaying the initial financing of the properties. The Office of the Attorney General, the EDD's legal office, and the Office of Legislative Counsel, agree that there is a legal basis for a federal equity interest in state-owned properties. Our review of the EDD's records showed that, for most of the properties in which the DOL has an equity interest, the DOL and the EDD initially agreed that federal grant funds

would be used to repay the initial financing of the property and that the payments would result in a federal equity interest in the property. Also, there is evidence that the Department of Finance was aware that the federal government would acquire an equity interest in the property if the State used federal funds to repay the initial financing. Based on the EDD's records, the historical cost of the properties in which the DOL has an equity interest is at least $51 million. The DOL's share in these properties as of January 31, 1991, is at least $24 million based on the historical cost of the properties. The fair market value of the DOL's equity interest in these properties would be significantly higher.

We conducted this review under the authority vested in the auditor general by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this letter.

Respectfully submitted,

Kurt R Sjoberg

KURT R. SJOBERG
Auditor General (acting)

Attachment

Response to the Audit Employment Development Department

Attachment

Summary of the Federal and State Equity Interest

Property	Address	Estimated Square Footage	Total Historical Cost	Federal Share		State Share			
				Amount	Percentage	Amount	Reed Act	Total	Percentage
Bakersfield office	1924 Q Street	19,775	$ 499,374	$ 400,953	80.29%	$ 98,421	$	$ 98,421	19.71%
Chico office	240 West 7th Street	6,075	212,133	94,913	44.74	40,539	76,681	117,220	55.26
El Centro office	100 North Imperial	9,165	576,853	239,614	41.54	287,478	49,761	337,239	58.46
Eureka office	409 K Street	15,135	697,673	465,170	66.67	121,224	111,279	232,503	33.33
Fullerton office	233 East Commonwealth Ave.	11,869	384,377	384,377	100.00				
Hollywood office	6725 Santa Monica Boulevard	29,968	947,152	947,152	100.00				
Indio office	83/151 Requa Street	7,830	301,261	301,261	100.00				
Inglewood office	4546 West Century Boulevard	22,994	598,220	598,220	100.00				
Long Beach office	1313 Pine Avenue	34,637	785,888	496,906	63.23	288,982		288,982	36.77
Los Angeles branch office	1525 South Broadway	91,191	2,749,898	2,494,157	90.70	255,741		255,741	9.30
Los Angeles office	1405 South Broadway	28,288	943,977	943,977	100.00				
Los Angeles office	1400 South Hill Street	15,000	527,992	527,992	100.00				
Marysville office	1204 E Street	8,525	411,683	411,683	100.00				
Merced office	1205 West 18th Street	11,930	1,096,152	356,027	32.48	360,375	379,750	740,125	67.52
Modesto office	629 12th Street	21,695	1,373,978	464,834	33.83	48,290	860,854	909,144	66.17

Property	Address	Estimated Square Footage	Total Historical Cost	Federal Share		State Share			
				Amount	Percentage	Amount	Reed Act	Total	Percentage
Oakland office	1225 4th Avenue	26,310	$ 1,006,991	$ 653,055	64.85%	$ 353,936		$ 353,936	35.15%
Oroville office	2348 Baldwin Avenue	5,265	390,839	280,809	71.85	110,030		110,030	28.15
Pasadena office	1207 East Green Street	14,760	642,463	642,463	100.00				
Redding office	1301 Pine Street	12,064	480,409	390,566	81.30	89,843		89,843	18.70
Richmond office	344 21st Street	21,737	744,401	548,623	73.70		195,778	195,778	26.30
Riverside office	3587 5th Street	20,705	591,262	557,011	94.21	34,251		34,251	5.79
Sacramento central office	722/800 Capitol Mall	493,440	7,914,999	6,065,217	76.63	1,849,782		1,849,782	23.37
Sacramento warehouse	805 R Street	38,530	291,120	250,595	86.08	40,525		40,525	13.92
Sacramento field office	2901 50th Street	42,405	2,333,620	1,057,510	45.32	1,276,110		1,276,110	54.68
Salinas office	346 Front Street	12,843	379,823	349,267	91.96		30,556	30,556	8.04
San Bernardino office	480 Mt. View Avenue	15,873	374,552	333,381	89.01	41,171		41,171	10.99
San Bernardino additional building	371 West 3rd Street	15,033	446,310	173,031	38.77	273,279		273,279	61.23
San Francisco office	745 Franklin Street	59,761	1,371,270	925,592	67.50	445,678		445,678	32.50
San Jose office	297 West Hedding Street	26,700	1,521,148	706,245	46.43	814,903		814,903	53.57
Santa Barbara office	130 East Ortega Street	18,126	552,350	297,258	53.82	206,561	48,531	255,092	46.18
Santa Rosa office	419 10th Street	12,996	1,015,103	412,406	40.63	506,490	96,207	602,697	59.37
Stockton office	135 West Fremont	29,944	790,386	594,408	75.20	195,978		195,978	24.80

				Federal Share		State Share			
Property	Address	Estimated Square Footage	Total Historical Cost	Amount	Percentage	Amount	Reed Act	Total	Percentage
Torrance office	1220 Engracia Avenue	9,479	$ 336,636	$ 336,636	100.00%				
Vallejo office	1440 Marin Street	10,473	385,513	368,038	95.47	$ 17,475		$ 17,475	4.53%
Visalia office	500 North Garden	3,000	a	a	a				
Subtotal			$33,675,806	$24,069,347	71.47%	$7,757,062	$1,849,397	$9,606,459	28.53%
Fresno state office building (leased from Department of General Services)	1050 O Street	158,000	3,975,273	b					
Oakland state office building (leased from Department of General Services)	1111 Jackson Street	199,000	4,123,575	b					
San Diego state office building (leased from Department of General Services)	1350 Front Street	107,287	4,615,602	b					
Santa Ana state office building (leased from Department of General Services)	28 Civil Center Plaza	102,265	4,600,000	b					
Subtotal			17,314,450						
	Total		$50,990,256						

a The EDD leased this property from the City of Visalia from 1941 to 1946. In 1946, the EDD purchased the property for $10. We could not determine from the EDD records the actual cost of the property. Also, the EDD could not prove whether the DOL or the State made the lease payments; however, the DOL probably made the lease payments since the property housed a federally funded program from 1941 to 1946. Thus, the DOL probably has a 100 percent equity interest in this property.

b The DOL provided funds that the State used to repay the financing it obtained to construct these properties. However, neither the EDD nor the Department of General Services could provide records of the exact amount the DOL paid. Based on estimates, we believe that the federal equity in these properties as of January 31, 1991, is not more than 13 percent of the combined historical cost of these four properties.

EDD Serving the People of California

M E M O R A N D U M

To: Kurt R. Sjoberg, Acting Auditor General
Office of the Auditor General
660 J Street, Suite 300
Sacramento, CA 95814

Via: Health and Welfare Agency

Date: March 25, 1991

File No.: FPD70R19rbA0198.2

M Aefaw
br

From: Employment Development Department

Subject: REPORT F-051

The Employment Development Department (EDD) welcomes this opportunity to review and respond to Report F-051, Federal and State Equity in Employment Development Department Properties, issued as a result of your recent review of federal equity interest in the Department's state-owned real properties amortized with federal funds.

We generally agree with the conclusions presented in the report. However, the information regarding the federal equity in the four Department of General Services (DGS) buildings is unclear.* EDD will work with DGS, and later with the Department of Labor, to finalize the federal equity amount and percentage for each building and then transfer that equity to EDD buildings.

The Department appreciates the high quality of your analysis and the cooperation of your staff during the course of the review. This cooperation has enabled us to resolve the questions that made the review necessary relating to the complex matter of federal equity interest in state-owned real properties.

John D. Healy
for THOMAS P. NAGLE
Director

---

*The Office of the Auditor General's Comment: The information presented in the report concerning the federal equity in four Department of General Services' buildings (pages 13 and 14) explains that we were unable to determine the amount of federal equity in these properties.

DE 16 Rev. 12 (2-87) 90 56011